3/3/87 R4105-12A

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Manufacturing Investment Statistics

Capital Appropriations

Third Quarter 1986

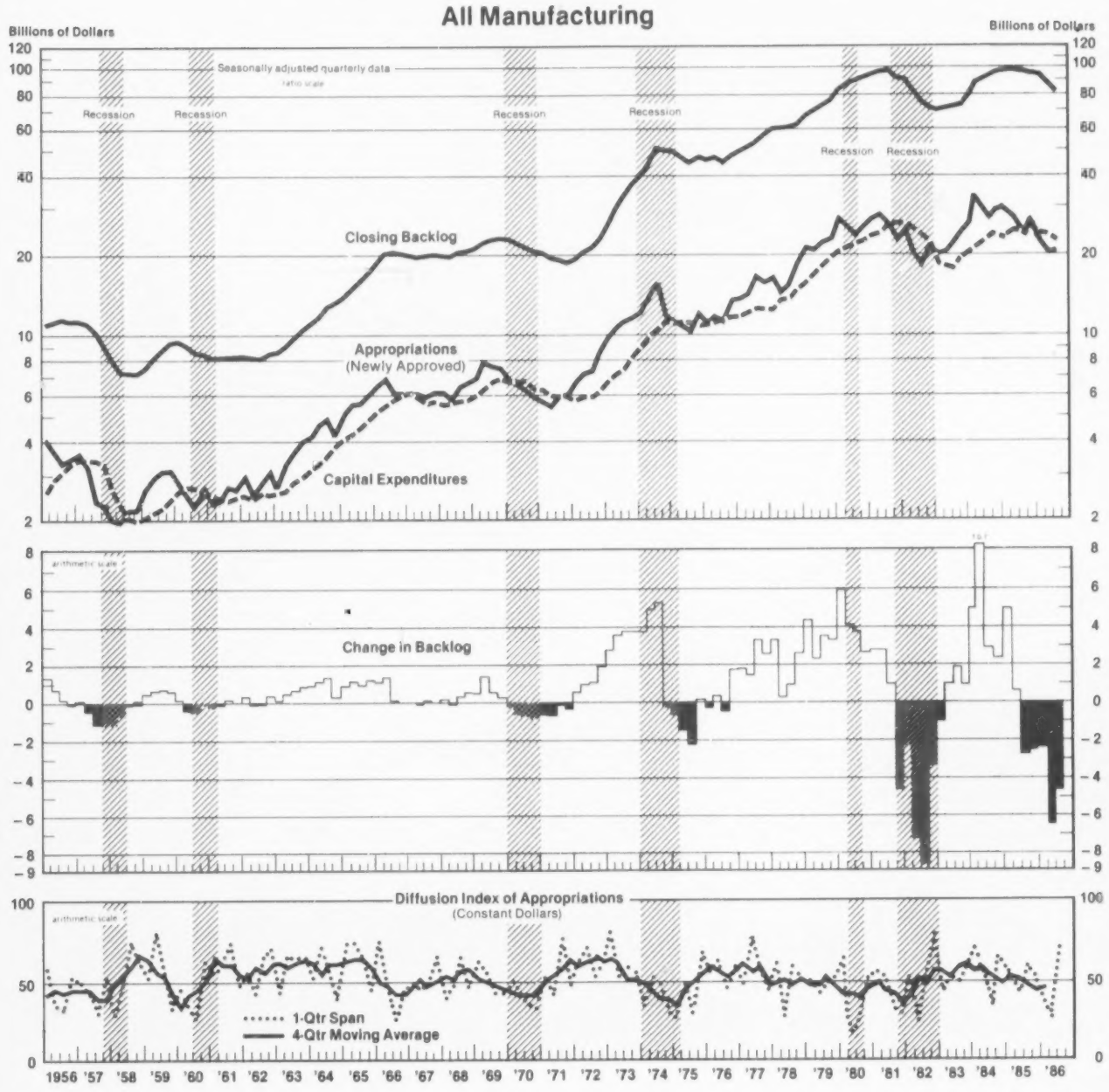
and

Capital Investment and Supply Conditions

October 1986

The Conference Board

CAPITAL APPROPRIATIONS IN RECESSION AND EXPANSION



Surveys conducted by Walter Arvin

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The Third Quarter Survey of Capital Appropriations Highlights

Highlights

- Capital Appropriations up for the first time in 1986.
- Capital spending for all of 1986 expected to be 4.7% below 1985 levels.
- Expenditures held down by the nondurables sector.
- Closing backlogs of unspent appropriations continue their year-long decline. However, that does not necessarily portend spending decreases since backlogs were at unusually high levels.
- 1987 outlook: a glimmer of optimism. Survey respondents expect an 8% increase in expenditures and a 13% increase in appropriations.
- Many of the negative effects of tax reform have been reflected in the 1986 investment figures. Therefore, tax reform may not be much of a drag on this year's economy.
- Most capital spending by the nation's largest manufacturers continues to be aimed at improving efficiency rather than at expanding capacity.

Despite continued weakness in capital expenditures, appropriations by the nation's 1,000 largest manufacturers stabilized in the third quarter of 1986. Expenditures fell by 5.8% to their lowest level since early 1984. However, capital appropriations for future spending on plant and equipment rose modestly in the same quarter following two consecutive declines. Excluding the volatile petroleum refining and chemical industries, appropriations increased 13.8%, suggesting stronger spending in 1987 than previously anticipated.

Lower Oil Prices Detrimental to 1986 Capital Spending

Sharp declines in oil prices affected nonpetroleum-related sectors of the economy: the demand for alternative fuels—such as coal and gas—weakened along with capital expenditures in other extractive industries. Firms in these energy-related industries are by nature heavy users of capital equipment; collectively they account for almost 25% of total U.S. capital spending. Therefore, further increases in oil prices would be welcome not only to them, but also to the battered capital-goods industry, which relies heavily on sales to energy-related industries.

Investments Continue to be Aimed at Efficiency Gains

Since the fourth quarter of 1981, an increasingly large share of manufacturers' investments have been allocated for efficiency gains and cost-cutting measures rather than increasing productive capacity. Less than half of all expenditures have been for capacity expansion since the third quarter of 1985. In the third quarter of 1986, only 43% of expenditures were earmarked for that purpose. By contrast, in most earlier years well over 60% of expenditures were earmarked for expansion (See Chart 2).

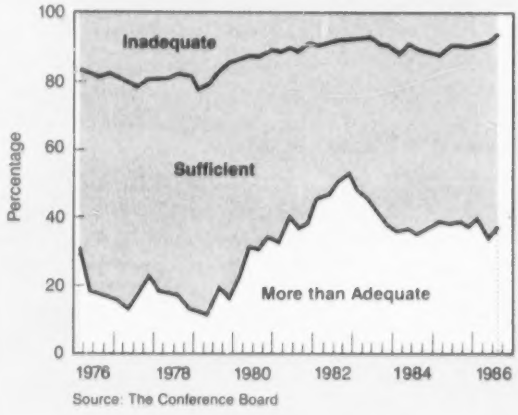
The passing of the Tax Reform Act—with its less generous incentives for construction—will mean less spending on new plants. In addition, there is less pressure to build new facilities with the capacity utilization rate below 80 percent. The combination of continued competition from abroad and low utilization rates suggests that efficiency gains will continue to be the aim of much of the capital spending in the quarters ahead.

Tax Reform; Effects Already Felt

Most of the negative effects of the 1986 tax bill have already been taken into account. (1987 may bring new changes, of course.) The repeal of the investment tax credit,

Chart 1

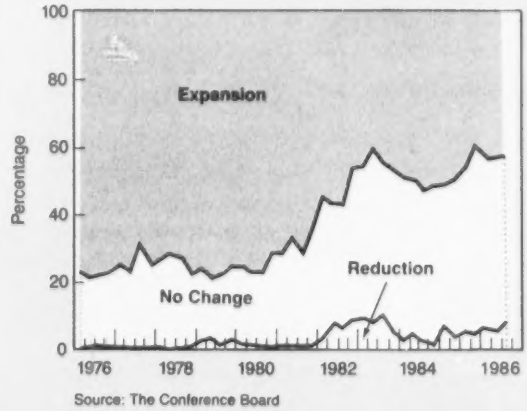
Adequacy of Capital Facilities



Source: The Conference Board

Chart 2

Changes in Capital Facilities



Source: The Conference Board

retroactive to January 1, 1986, was well publicized, and reflected in last year's expenditures. Many believe that depreciation allowances on equipment are often times more favorable now than under the old tax code: The change from 150% to 200% declining balance, coupled with the lower corporate rates, tends to offset the longer depreciation period. With approximately 80% of all capital spending on equipment, and with little pressure to increase capacity, the new tax bill may be less of a depressant on investment spending than originally thought.

Although the new tax code was known to be less generous to investment spending than the previous one, the uncertainties surrounding it left many investment projects on the back burner in 1986. This "wait-and-see" attitude could persist well into 1987 while corporate America continues to interpret the provisions of the bill. There may be more delays in 1987 if executives believe that Congress will keep tinkering with the new tax code.

1987 Outlook: A Glimmer of Optimism

Survey respondents expect an 8% increase in capital outlays for all of 1987. All but three industries surveyed—petroleum, rubber, and stone, clay and glass—expect to increase spending this year.

Some recent economic indicators support this optimism. According to The Conference Board's *Survey of Senior Financial Executives*, before-tax profits are expected to increase by an average of 17% in 1987. Also, capacity utilization rates have started to inch back up. After reaching the lowest rates in three years, manufacturers have shown moderate but widespread gains in their utilization rates throughout the second half of 1986. The foreign-trade picture also looks brighter for 1987, since the dollar's decline makes U.S. manufacturers more price-competitive both overseas and at home. With much of past and current spending going towards efficiency improvements, the outlook is brighter for both regaining market shares at home and increasing them abroad. And interest rates are expected to fluctuate near current levels throughout most of 1987.

Weakness in Nondurables Dragged down Spending Aggregrate

Actual third-quarter capital spending by the largest manufacturers dropped to $22.9 billion. A 16.8% decrease in spending by the nondurable sector more than offset the continued strong spending by the durable goods sector.

Excluding the petroleum industry, manufacturers have decreased third-quarter capital expenditures by 4.5 percent. When the volatile chemical and petroleum industries are both excluded, capital spending by the rest of the manufacturing sector increased by 4.8% in the third quarter, reflecting an underlying strength in the manufacturing economy that is expected to surface this year.

Manufacturers' expenditures in the first three quarters of 1986 were 3.1% below the same period in 1985. Most of this decline can be attributed to the petroleum industry, where capital spending was 31% less during the first three quarters of 1986 than the same period in 1985. Overall manufacturing expenditures for 1986 are expected to be 4.7% below their 1985 level.

Sharp Rebound in Durables Pulls Appropriations Out of Year-Long Slide

After two consecutive quarterly declines, capital appropriations rose by a modest 1.1% in the third-quarter, to $20.2 billion. This slight increase in approved expenditures came predominantly from the durable-goods sector, which increased its appropriations 7.8% from the previous quarter. While most industries in the nondurable-goods sector showed sizable increases in appropriations, the sector's performance as a whole was dragged down by its two largest industries —petroleum refining and the chemical and allied products industry.

Despite the third quarter increase, total manufacturing appropriations for the first three quarters of 1986 were 22.1% below the first three quarters of 1985. Most of last year's decline can be attributed to the petroleum industry, where appropriations were 49.5% below the first three quarters of 1985. However, the *rate* of decline in this sector has started to diminish as oil prices have begun to firm.

Conclusion

Falling oil prices generally bode well for the U.S. economy, but this was not the case in 1986. Last year's investment figures demonstrate that their immediate impact on capital spending is negative. First of all, the drop in investment spending among sectors tied to the oil industry was obviously triggered primarily by the decline in oil prices. Second, the nonoil-related sectors were in no hurry to spend their windfall last year, primarily because of the confusion surrounding the pending tax legislation. With the passage of the tax bill, businesses may start to spend their windfall from the oil price decline. But capital spending may continue to be lower if there is lingering uncertainty about the bill or about prospective changes to it.

Due to special tax considerations, much of the first-quarter 1987 spending may have taken place in the fourth quarter of 1986. This may result in weaker capital spending in the first quarter of 1987. However, spending may strengthen if manufacturers continue their modernization programs.

If the hoped-for trade turnaround is led by a rise in exports, the second quarter of 1987 may bring a surge in investment spending, as manufacturers find themselves more competitive globally — a consequence of their past spending programs and the decline of the dollar.

Walter Arvin
January 26, 1987

TABLE 1. PERCENT CHANGES IN CAPITAL APPROPRIATIONS AND EXPENDITURES

Seasonally Adjusted Data in Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	IV-85 to I-86	I-86 to II-86	II-86 to III-86	III-85 to III-86	IV-85 to I-86	I-86 to II-86	II-86 to III-86	III-85 to III-86
				—APPROPRIATIONS—				
ALL MANUFACTURING	-14.0	-14.5	1.1	-16.4	-12.7	-14.4	0.5	-15.7
ALL MFG. EX PETROLEUM	- 9.7	-10.2	4.1	4.6	- 8.2	-10.1	3.5	3.7
DURABLE GOODS	- 3.3	-17.5	7.8	-14.2	- 1.5	-17.4	7.4	-13.1
Primary iron & steel	497.8	-89.9	280.7	-34.3	509.9	-89.9	279.3	-33.2
Primary nonferrous metals	-12.6	-38.3	23.0	0.0	-11.6	-38.3	22.1	0.3
Electrical machinery & equipment	-20.8	50.1	2.6	16.4	19.6	50.8	1.9	17.4
Nonelectrical machinery	- 9.3	-19.5	-19.2	-42.2	- 6.6	-19.0	-19.7	-41.2
Motor vehicles & equipment	-20.8	-34.4	-21.5	-18.9	-19.2	-34.7	-21.7	-18.1
Other transportation equipment	- 1.4	-17.0	34.3	2.2	0.9	-16.3	33.9	3.8
Stone, clay & glass	-13.6	-52.7	11.2	- 6.1	-12.1	53.8	10.5	- 4.4
Fabricated metals	44.2	-22.1	-23.0	-26.8	46.6	-21.7	-23.7	25.8
Instruments & photo equipment	-10.4	-11.3	9.4	- 5.7	- 9.1	-12.0	9.2	- 5.6
Other durable goods†	22.7	-44.2	148.5	-26.1	19.8	-44.5	158.0	-24.8
NONDURABLE GOODS	-22.5	-11.6	- 5.1	-18.5	-21.5	-11.4	- 5.9	-18.2
Food & beverages	6.7	-29.8	14.3	- 8.4	8.2	-30.1	13.2	- 8.6
Textiles	24.7	-11.3	19.7	125.0	27.4	-11.6	17.9	124.0
Paper & allied products	-19.8	127.8	21.4	64.7	-18.3	128.6	20.4	66.3
Chemicals & allied products	- 1.8	27.8	-32.6	8.5	- 0.4	27.2	-32.9	9.0
Petroleum & coal products	-28.5	-32.9	-16.0	-55.7	-27.7	-32.5	-17.0	-55.4
Rubber products	-74.7	-63.9	114.3	10.8	-74.4	-63.7	112.6	-11.7
Other nondurable goods†	- 5.4	-31.0	57.2	15.6	- 5.1	-30.6	55.3	15.3
				—EXPENDITURES—				
ALL MANUFACTURING	-10.5	3.2	- 5.8	- 7.4	- 9.2	3.3	- 6.3	- 6.6
ALL MFG. EX PETROLEUM	-11.1	11.4	- 4.5	4.8	- 9.7	11.4	- 4.9	5.7
DURABLE GOODS	- 9.4	3.5	5.8	2.2	- 7.8	3.6	5.5	3.4
Primary iron & steel	- 7.9	-49.3	8.7	-25.1	- 6.0	-49.1	8.3	-23.7
Primary nonferrous metals	24.0	-13.4	- 4.2	4.6	25.5	-13.3	- 4.7	5.5
Electrical machinery & equipment	-17.0	27.4	8.6	8.1	-15.8	27.9	7.8	9.1
Nonelectrical machinery	-37.8	4.6	17.7	-19.1	-35.9	5.2	16.9	-17.8
Motor vehicles & equipment	0.6	7.4	- 6.4	6.5	2.6	7.0	- 6.6	7.6
Other transportation equipment	20.6	12.9	- 9.8	11.5	23.3	13.8	-10.1	13.3
Stone, clay & glass	-10.5	- 5.4	31.7	8.8	- 8.9	- 4.9	30.8	10.7
Fabricated metals	- 0.9	- 0.3	-13.4	- 5.5	0.7	0.3	-14.4	- 4.1
Instruments & photo equipment	2.8	- 9.1	2.8	- 9.5	4.3	- 9.8	2.7	- 9.4
Other durable goods†	-19.5	- 8.1	69.1	50.7	-21.4	- 8.7	75.6	53.6
NONDURABLE GOODS	-11.5	2.8	-16.8	-16.9	-10.4	3.0	-17.7	-16.6
Food & beverages	-12.9	9.7	8.4	29.2	-11.6	9.3	7.4	28.9
Textiles	15.8	5.8	6.7	- 2.2	18.3	5.8	4.8	- 2.3
Paper & allied products	-10.7	31.5	-14.9	7.2	- 9.2	31.8	-15.7	8.2
Chemicals & allied products	4.5	49.7	-42.8	-13.3	5.9	49.1	-43.1	-12.8
Petroleum & coal products	- 8.2	-28.5	-13.7	-47.7	- 7.1	-28.1	-14.7	-47.4
Rubber products	-51.9	-13.9	-17.4	15.1	-51.3	-13.5	-18.1	16.1
Other nondurable goods†	13.3	4.1	36.3	57.7	13.6	4.5	34.8	57.1

TABLE 2. CAPITAL APPROPRIATIONS AND EXPENDITURES

Seasonally Adjusted Data in Millions of Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	IV-85	I-86	II-86(r)	III-86(p)	IV-85	I-86	II-86(r)	III-86(p)
ALL MANUFACTURING								
Opening backlog	97,178	94,584	92,216	85,769				
Newly approved	27,190	23,386	19,991	20,208	26,918	23,504	20,127	20,219
Canceled	3,448	2,188	2,129	1,950	3,407	2,206	2,149	1,951
Capital expenditure	26,336	23,566	24,309	22,902	26,077	23,691	24,468	22,917
Closing backlog	94,584	92,216	85,769	81,125				
Manufacturing Excluding Petroleum								
Opening backling	71,192	68,711	67,018	61,289				
Newly approved	20,986	18,951	17,016	17,708	20,768	19,056	17,125	17,726
Canceled	2,444	1,956	1,922	1,387	2,412	1,973	1,940	1,390
Capital expenditure	21,023	18,688	20,823	19,892	20,810	18,799	20,950	19,916
Closing backling	68,711	67,018	61,289	57,718				
DURABLE GOODS								
Opening backlog	44,856	41,793	40,211	36,387				
Newly approved	12,005	11,613	9,578	10,322	11,855	11,682	9,655	10,367
Canceled	2,392	1,716	1,522	1,205	2,361	1,728	1,538	1,210
Capital expenditure	12,676	11,479	11,880	12,567	12,524	11,548	11,965	12,622
Closing backlog	41,793	40,211	36,387	32,937				
Primary iron & steel								
Opening backlog	1,752	1,092	1,490	880				
Newly approved	181	1,082	109	415	180	1,098	111	421
Canceled	105	6	375	129	104	6	382	131
Capital expenditure	736	678	344	374	732	688	350	379
Closing backlog	1,092	1,490	880	792				
Primary nonferrous metals								
Opening backlog	2,334	2,194	2,044	1,810				
Newly approved	475	415	256	315	473	418	258	315
Canceled	261	126	110	104	260	127	111	104
Capital expenditure	354	439	380	364	352	442	383	365
Closing backlog	2,194	2,044	1,810	1,657				
Electrical machinery & equipment								
Opening backlog	5,431	4,864	4,700	4,715				
Newly approved	2,066	1,637	2,457	2,522	2,047	1,645	2,480	2,526
Canceled	576	93	266	239	571	93	268	239
Capital expenditure	2,057	1,708	2,176	2,364	2,039	1,717	2,196	2,367
Closing backlog	4,864	4,700	4,715	4,634				
Nonelectrical machinery								
Opening backlog	7,745	7,129	7,297	7,356				
Newly approved	2,474	2,243	1,805	1,458	2,416	2,257	1,828	1,467
Canceled	617	536	136	100	602	539	138	101
Capital expenditure	2,473	1,539	1,610	1,895	2,415	1,549	1,630	1,906
Closing backlog	7,129	7,297	7,356	6,819				
Motor vehicles & equipment								
Opening backlog	15,776	15,181	13,614	11,289				
Newly approved	3,012	2,386	1,565	1,228	2,983	2,411	1,575	1,233
Canceled	448	776	477	242	444	784	480	243
Capital expenditure	3,159	3,177	3,413	3,196	3,129	3,210	3,436	3,209
Closing backlog	15,181	13,614	11,289	9,079				
Other transportation equipment								
Opening backlog	4,014	3,941	3,802	3,198				
Newly approved	1,327	1,309	1,086	1,459	1,304	1,315	1,100	1,473
Canceled	196	−4	50	123	193	−4	51	124
Capital expenditure	1,204	1,452	1,640	1,480	1,183	1,459	1,661	1,494
Closing backlog	3,941	3,802	3,198	3,054				
Stone, clay & glass								
Opening backlog	2,227	2,017	1,804	1,989				
Newly approved	560	484	739	822	557	490	751	830
Canceled	91	89	−21	−1	91	90	−21	−1
Capital expenditure	679	608	575	757	676	615	585	765
Closing backlog	2,017	1,804	1,989	2,055				
Fabricated metals								
Opening backlog	1,258	1,259	1,357	1,344				
Newly approved	310	447	348	268	308	452	354	270
Canceled	−15	28	41	−20	−15	28	42	−20
Capital expenditure	324	321	320	277	322	325	326	279
Closing backlog	1,259	1,357	1,344	1,355				

TABLE 2. CAPITAL APPROPRIATIONS AND EXPENDITURES (continued)

	Current Dollars				Constant Dollars			
	IV-85	I-86	II-86(r)	III-86(p)	IV-85	I-86	II-86(r)	III-86(p)
Instruments & photo equipment								
Opening backlog	1,767	1,847	1,880	1,854				
Newly approved	1,067	956	848	928	1,058	961	846	924
Canceled	109	20	53	46	108	20	53	46
Capital expenditure	878	903	821	844	871	908	819	841
Closing backlog	1,847	1,880	1,854	1,892				
Other durable goods†								
Opening backlog	2,552	2,269	2,223	1,952				
Newly approved	533	654	365	907	529	634	352	908
Canceled	4	46	35	243	4	45	34	243
Capital expenditure	812	654	601	1,016	807	634	579	1,017
Closing backlog	2,269	2,223	1,952	1,600				
NONDURABLE GOODS								
Opening backlog	52,322	52,791	52,005	49,382				
Newly approved	15,185	11,773	10,413	9,886	15,063	11,821	10,472	9,852
Canceled	1,056	472	607	745	1,045	478	611	741
Capital expenditure	13,660	12,087	12,429	10,335	13,553	12,142	12,503	10,295
Closing backlog	52,791	52,005	49,382	48,188				
Food & beverages								
Opening backlog	5,948	6,183	6,660	6,404				
Newly approved	2,200	2,348	1,649	1,884	2,175	2,355	1,647	1,864
Canceled	114	258	135	167	113	259	135	165
Capital expenditure	1,851	1,613	1,770	1,919	1,830	1,618	1,768	1,898
Closing backlog	6,183	6,660	6,404	6,202				
Textiles								
Opening backlog	413	440	453	453				
Newly approved	170	212	188	225	168	215	190	224
Canceled	10	45	25	31	10	46	25	31
Capital expenditure	133	154	163	174	132	156	165	173
Closing backlog	440	453	453	473				
Paper & allied products								
Opening backlog	4,647	4,675	4,111	3,909				
Newly approved	658	528	1,203	1,461	655	535	1,223	1,472
Canceled	−505	79	73	21	−503	80	74	21
Capital expenditure	1,135	1,013	1,332	1,133	1,130	1,027	1,354	1,142
Closing backlog	4,675	4,111	3,909	4,216				
Chemicals & allied products								
Opening backlog	8,014	7,894	7,898	7,257				
Newly approved	2,847	2,797	3,574	2,409	2,830	2,818	3,585	2,404
Canceled	373	83	158	−45	371	84	159	−45
Capital expenditure	2,594	2,710	4,057	2,321	2,578	2,730	4,070	2,316
Closing backlog	7,894	7,898	7,257	7,390				
Petroleum and coal products								
Opening backlog	25,986	25,873	25,198	24,480				
Newly approved	6,204	4,435	2,975	2,500	6,150	4,448	3,002	2,493
Canceled	1,004	232	207	563	995	233	209	561
Capital expenditure	5,313	4,878	3,486	3,010	5,267	4,892	3,518	3,001
Closing backlog	25,873	25,198	24,480	23407				
Rubber products								
Opening backlog	2,935	3,107	2,719	2,129				
Newly approved	2,144	543	196	420	2,131	546	198	421
Canceled	32	−2	−17	1	32	−2	−17	1
Capital expenditure	1,940	933	803	663	1,928	939	812	665
Closing backlog	3,107	2,719	2,129	1,885				
Other nondurable goods†								
Opening backlog	4,379	4,619	4,966	4,750				
Newly approved	962	910	628	987	953	904	627	974
Canceled	28	−223	26	7	28	−222	26	7
Capital expenditure	694	786	818	1,115	687	781	816	1,100
Closing backlog	4,619	4,966	4,750	4,615				

See General Notes

TABLE 3. ADEQUACY OF CAPITAL FACILITIES

Percent Distribution of Responding Companies Weighted by Assets

	July 1984	Oct. 1984	Jan. 1985	Apr. 1985	July 1985	Oct. 1985	Jan. 1986	Apr. 1986	July 1986	Oct. 1986
					Inadequate					
All Manufacturing	8.2	10.0	11.0	10.9	9.1	9.1	9.4	8.5	7.9	5.1
Durable goods	14.2	16.8	15.7	17.4	17.3	17.5	16.8	14.3	13.4	7.8
Nondurable goods	3.2	4.3	6.4	5.3	2.4	2.7	2.7	2.7	2.9	2.8
					Sufficient					
All Manufacturing	55.3	54.4	52.9	50.2	52.7	52.0	52.9	51.1	58.5	57.5
Durable goods	49.0	50.3	53.1	54.4	53.5	48.2	47.5	52.7	54.7	60.4
Nondurable goods	60.5	57.8	52.7	46.5	52.1	54.9	57.8	49.5	61.9	55.2
					More Than Adequate					
All Manufacturing	36.5	35.6	36.1	38.9	38.2	38.9	37.7	40.4	33.6	37.4
Durable goods	36.8	32.9	31.2	28.2	29.2	34.3	35.7	33.0	31.9	31.8
Nondurable goods	36.3	37.9	40.9	48.2	45.5	42.4	39.5	47.8	35.2	42.0

TABLE 4. CHANGE IN CAPITAL FACILITIES EXPECTED FROM CURRENT SPENDING PROGRAMS

Percent Distribution of Responding Companies Weighted by Assets

	July 1984	Oct. 1984	Jan. 1985	Apr. 1985	July 1985	Oct. 1985	Jan. 1986	Apr. 1986	July 1986	Oct. 1986
					Expansion					
All Manufacturing	49.7	52.7	51.4	50.9	49.5	45.6	39.4	42.9	42.7	42.6
Durable goods	51.6	58.8	58.9	60.2	52.4	50.3	45.9	41.8	40.5	48.9
Nondurable goods	48.1	47.6	43.9	42.6	47.1	42.0	33.6	43.9	44.6	37.8
					No Change					
All Manufacturing	46.1	44.8	46.9	42.3	47.3	49.1	55.4	51.0	51.8	49.4
Durable goods	39.2	36.4	37.8	32.9	41.5	40.8	45.7	47.7	50.8	34.8
Nondurable goods	51.9	51.9	56.0	50.7	52.1	55.5	64.2	54.2	52.8	60.7
					Reduction					
All Manufacturing	4.2	2.5	1.7	6.8	3.2	5.3	5.2	6.1	5.5	8.0
Durable goods	9.2	4.8	3.3	6.9	6.1	8.9	8.4	10.5	8.7	16.3
Nondurable goods	0.0	0.6	0.1	6.7	0.8	2.5	2.2	1.9	2.6	1.5

GENERAL NOTES

Data for 1986-I are revised; data for 1986-II are preliminary. All Constant dollar data have been revised to 1982 dollars. Please note: We have stopped publishing constant dollar backlog data pending a review of the method used to calculate them.

Amounts shown as "canceled" in Table 2 also include adjustments and corrections to appropriations backlogs, such as cost over- or under-runs.

All estimates are based on a survey and are for the survey population, which is composed of the 1,000 largest manufacturing companies as ranked by total assets. These companies accounted for approximately 75% of all manufacturing corporations' assets in 1979.

Historical data from 1953 available on request for quarterly series seasonally adjusted and quarterly series not seasonally adjusted.

†Other durables includes lumber, furniture and fixtures, and miscellaneous manufactures; other nondurables includes tobacco, apparel, printing and publishing, and leather.

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P/2 7/87 R4105-12

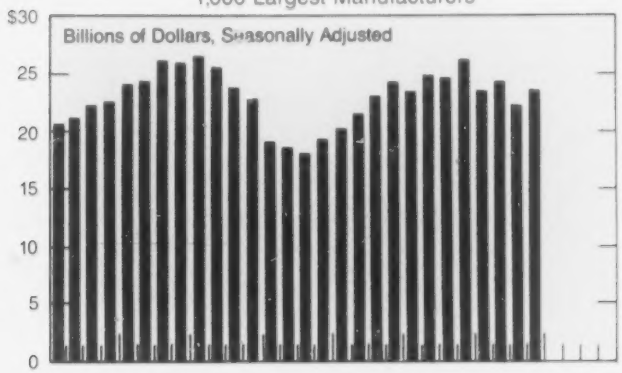
The Conference Board's

Economic Analysis Program

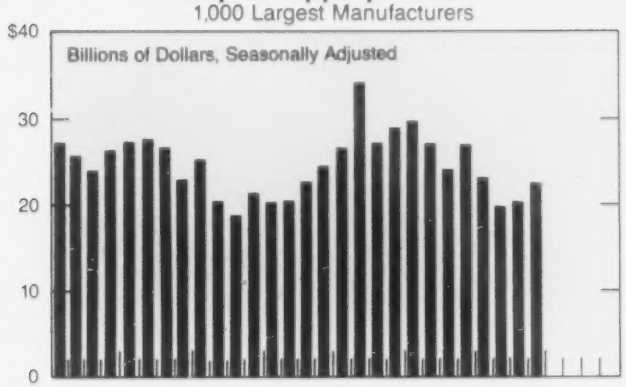
Capital Appropriations

A Quarterly Report from The Conference Board **Fourth Quarter 1986**

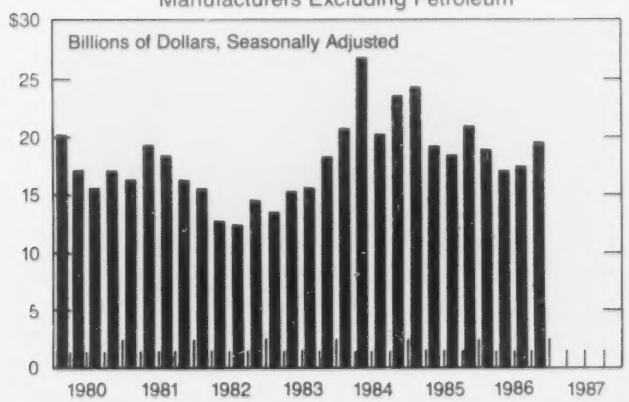
Capital Expenditures
1,000 Largest Manufacturers



Capital Appropriations
1,000 Largest Manufacturers



Capital Appropriations
Manufacturers Excluding Petroleum



Source: The Conference Board

Highlights

- Capital appropriations up sharply in fourth quarter, but total for 1986 lowest since 1982.
- Capital spending up 4.2% in fourth quarter, but down 5.6% for the year.
- 1986 expenditures by manufacturers (excluding the petroleum industry) reach all-time high.
- $10.2 billion of cancellations reduces closing backlog to $69.8 billion, lowest level since first-quarter 1983.
- 1987 outlook: Optimism still prevails. Survey respondents expect 10% increase in expenditures and 21% increase in appropriations for the year.
- Tax reform expected to have little impact on 1987 spending.

Weakened capital spending was one contributing factor to last year's sluggish economic growth. Still, excluding the petroleum industry, capital outlays by the nation's largest manufacturers reached their highest level on record (Chart A).

Many experts predicted that fourth-quarter 1986 expenditures would be boosted as companies attempted to take advantage of the old tax code's more generous investment treatment. Expenditures planned for early 1987, that is, would be carried out in late 1986. As it turned out, the 4.2% spending increase in the fourth quarter was less than expected. Only 3% of survey repondents reported accelerating their 1986 investment spending beause of tax reform. Thus, the effects of the tax reform were not quite as strong as had been anticipated.

Fourth-quarter 1986 capital spending by the nation's largest manufacturers reached $23.4 billion. This 4.2% increase over the third-quarter was spurred by the durable goods sector's 7.6% increase, its third consecutive advance. Spending by the nondurable goods sector stabilized at $10.3 billion, following a third-quarter drop of 17.4 percent (Tables 1 & 2).

Sharp Pick-up in Appropriations

Capital appropriations shot up by 12.3%, to $22.7 billion, in the fourth quarter of 1986. This increase comes at a time when manufacturers' capacity utilization, exports, and profitability have all been increasing, suggesting that appropriations may continue to rise.

Exports of manufactured goods increased at a 13% annual rate in the second half of 1986, even though the economies of our major trading partners showed little growth. Capacity utilization rates increased by one-half of a percentage point

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in the October-December period, the largest quarterly movement in 1986. Standard & Poors estimates that 1987 earnings per share will increase 12—15% in 1987 over 1986 earnings.

The fourth-quarter appropriations gain was paced by the 16.6% increase in the durable goods sector. The nondurable goods sector rebounded from three consecutive declines with an 8.1% gain. Appropriations by manufacturers, excluding the petroleum industry, reached $19.8 billion, a 12.2% increase from the third quarter (Tables 1 & 2).

Appropriations by the petroleum industry bounced back by 13.5% from the third quarter's thirteen-year low. (In real terms, this sector's third-quarter appropriations had been the lowest since 1963.) However, despite the strong fourth-quarter gain, petroleum industry appropriations are still at extremely low levels.

Closing Backlog Down to Three Year Low, Suggesting a Decline in First-Quarter Spending

The closing backlog of unspent appropriations plummeted by $10.9 billion in the fourth quarter, its sixth consecutive decline. This 13.5% drop brought the closing backlog to its lowest level since the first quarter of 1983. The decline is mostly attributable to year-end cancellations, especially in the petroleum industry, which wrote off $7.3 billion in previously approved appropriations.

Since closing backlogs have been a reliable leading indicator of the next quarter's capital spending (Chart B), we can expect a weakening in first-quarter capital outlays. Closing backlogs fell in eleven of the seventeen industry groups, suggesting widespread first-quarter spending declines.

1986 Capital Spending in Review: Oil-price Collapse Overshadows Some Underlying Strength

Last year's collapse in oil prices was a major contributor to the overall spending decline in 1986. It had obvious effects on the petroleum industry's 1986 expenditures, which—at $14.3 billion—showed a 35% decline from 1985. However, lower oil prices also played a significant role in declining expenditures in other, energy-related and extractive industries.

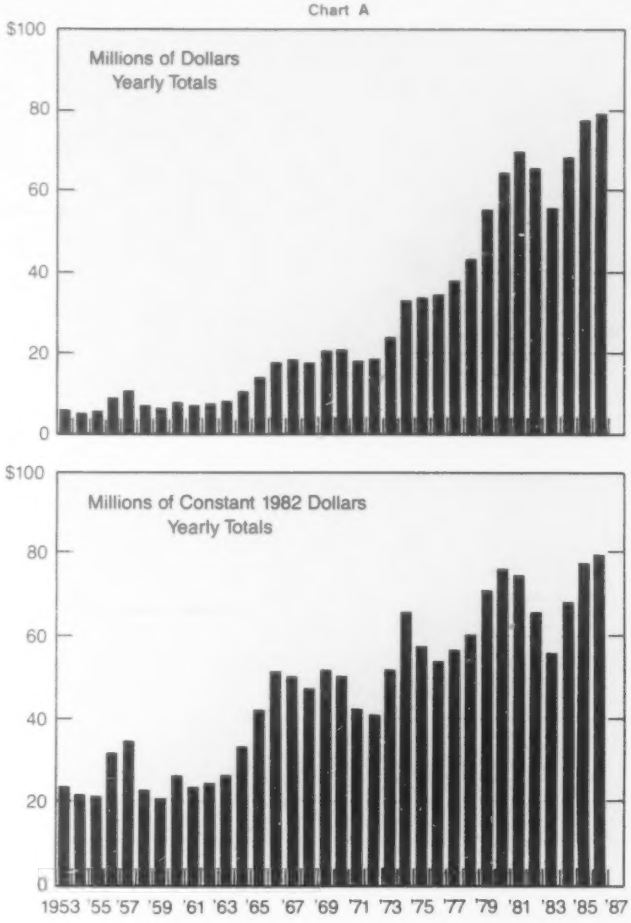
Weak spending by the utility industry—17% less in 1986 than in 1985—also helped pull down last year's spending aggregate. Since this sector historically accounts for approximately 15% of total U.S. capital spending, continued declines will depress the spending totals.

Some industries, however, had high expenditures levels, keeping 1986 spending from reaching "recession" levels. The motor-vehicle industry's expenditures reached $12.1 billion in 1986, the highest recorded level and more than double the 1984 level. Other industries showing signs of strength were nonferrous metals, other transportation equipment, fabricated metals, paper, chemicals, and food and beverages. Except for nonferrous and fabricated metals, all these industries registered record expenditure levels last year.

Capital Expenditures by the Nation's 1,000 Largest Manufacturers

Excluding the Petroleum Industry

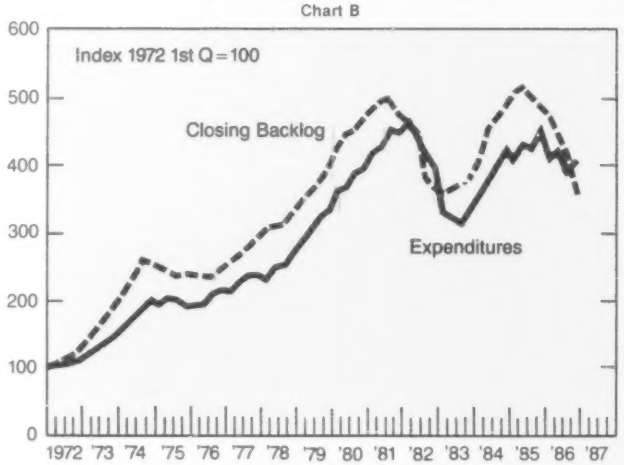
Chart A



Closing Backlog versus Expenditures

1,000 Largest Manufacturers

Chart B



Source: The Conference Board.

Spending Outlook; Optimism Still Prevails.

Survey respondents expect a 10% increase in capital outlays for 1987, and a 21% increase in appropriations, up 2 and 8 percentage points, respectively, from the previous quarter's survey. This would mean 1987 expenditures of $103.4 billion and appropriations of $106.8 billion. If the respondents' expectations prove correct, this year's spending may reach an all-time high.

Eleven of the seventeen industry groups anticipate their 1987 expenditures to be higher than in 1986. The biggest gains are expected in the nondurable goods sector, most notably in food and beverages, textiles, and paper. Major declines are expected in steel, motor vehicles, other transportation equipment, and chemicals.

The petroleum industry currently is planning to increase its spending by 2% over last year's level. Moreover, the prospect of oil prices below $20 a barrel portends little increase in expenditures by the petroleum industry. The industry's low level of appropriations also supports that hypothesis. Low spending by the petroleum sector could lower aggregate spending totals for 1987.

The motor-vehicle industry will not prop up overall 1987 spending as it did in 1986. The recent drop in both appropriations and the closing backlog suggests that expenditures by this sector will decline in 1987. The announcements of spending cutbacks by General Motors and Chrysler reinforces this contention.

The outlook for the utility industry is for a continued decline in overall capital spending. Weakness in spending by this sector is expected to continue until the end of this decade.

Because of the anticipated spending declines in the utility and motor-vehicle industries and continued low expenditure levels in the petroleum industry, total spending this year may remain close to last year's level. These three sectors account for a combined 21% of expenditures reported by the Commerce Department. This, in turn, suggests that expectations reported for 1987 may be overly optimistic.

The likelihood of a substantial increase in capital spending is not very great, for several reasons: the lack of pressure to increase capacity, the recent rise in interest rates, and the continuation of asset purchases through mergers and aquisitions. Based on current economic statistics and the findings of this survey, a spending increase of only 3.5%—4% (in nominal terms) appears more likely than the 10% increase suggested by the respondents.

Tax Reform: Little Impact on 1986 and 1987 Investment Decisions

Only 8% of survey respondents reported that the Tax Reform Act of 1986 had an impact on their companies' 1986 capital spending. Five percent reported a reduction in spending in 1986, due primarily to the retroactive repeal of the investment tax credit. The remaining 3% claimed that tax reform accelerated their 1986 spending, thereby reducing 1987 spending. This suggests that the effects of the Tax Reform Act have already been taken into account and should not have much of an effect on 1987 capital spending.

Walter Arvin

Tax Reform Act of 1986 Impact on Own Capital Spending

	No of Companies*		Of These Responding Yes	
Respondents	**Yes**	**No**	**Reduced**	**Accelerated**
All Manufacturing	23	273	16	7
Durables	13	154	10	3
Primary iron & steel	1	15	1	0
Primary nonferrous metals	0	11	0	0
Electrical machinery & equipment	2	24	1	0
Nonelectrical machinery	4	28	3	1
Motor vehicles & equipment	1	15	1	0
Other transportation equipment	0	10	0	0
Stone, clay & glass	2	11	2	0
Fabricated metals	0	14	0	0
Instruments & photo equipment	0	14	0	0
Other durable goods	3	12	2	1
Nondurable Goods	10	119	6	4
Food & beverages	3	25	2	1
Textiles	0	13	0	0
Paper & allied products	1	15	0	1
Chemicals & allied products	2	33	2	0
Petroleum & coal products	1	14	0	1
Rubber products	3	3	2	1
Other nondurable goods	0	16	0	0

* number of companies reponding to this specific Question.

TABLE 1. CAPITAL APPROPRIATIONS AND EXPENDITURES

Seasonally Adjusted Data in Millions of Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	I-86	II-86	III-86(r)	IV-86(p)	I-86	II-86	III-86(r)	IV-86(p)
ALL MANUFACTURING								
Opening backlog	94,584	92,216	85,769	80,709				
Newly approved	23,386	19,991	20,203	22,692	23,504	20,127	20,398	22,957
Canceled	2,188	2,129	2,811	10,237	2,206	2,149	2,839	10,225
Capital expenditure	23,566	24,309	22,452	23,390	23,691	24,468	22,607	23,646
Closing backlog	92,216	85,769	80,709	69,774				
Manufacturing Excluding Petroleum								
Opening backling	68,711	67,018	61,289	56,910				
Newly approved	18,951	17,016	17,649	19,794	19,056	17,125	17,881	20,081
Canceled	1,956	1,922	2,656	2,973	1,973	1,940	2,686	3,016
Capital expenditure	18,688	20,823	19,372	20,198	18,799	20,950	19,571	20,478
Closing backling	67,018	61,289	56,910	53,533				
DURABLE GOODS								
Opening backlog	41,793	40,211	36,387	32,401				
Newly approved	11,613	9,578	10,051	11,722	11,682	9,655	10,194	11,893
Canceled	1,716	1,522	1,851	2,195	1,728	1,538	1,870	2,226
Capital expenditure	11,479	11,880	12,186	13,107	11,548	11,965	12,325	13,292
Closing backlog	40,211	36,387	32,401	28,821				
Primary iron & steel								
Opening backlog	1,092	1,490	880	573				
Newly approved	1,082	109	403	307	1,098	111	407	311
Canceled	6	375	345	73	6	382	348	74
Capital expenditure	678	344	365	408	688	350	367	412
Closing backlog	1,490	880	573	400				
Primary nonferrous metals								
Opening backlog	2,194	2,044	1,810	1,645				
Newly approved	415	256	293	570	418	258	298	581
Canceled	126	110	111	88	127	111	113	90
Capital expenditure	439	380	347	522	442	383	352	533
Closing backlog	2,044	1,810	1,645	1,605				
Electrical machinery & equipment								
Opening backlog	4,864	4,700	4,715	4,853				
Newly approved	1,637	2,457	2,441	2,665	1,645	2,480	2,471	2,697
Canceled	93	266	22	995	93	268	22	1,008
Capital expenditure	1,708	2,176	2,281	3,552	1,717	2,196	2,309	3,598
Closing backlog	4,700	4,715	4,853	2,971				
Nonelectrical machinery								
Opening backlog	7,129	7,297	7,356	6,495				
Newly approved	2,243	1,805	1,468	2,041	2,257	1,828	1,504	2,099
Canceled	536	136	541	-17	539	138	554	-17
Capital expenditure	1,539	1,610	1,788	1,970	1,549	1,630	1,833	2,027
Closing backlog	7,297	7,356	6,695	6,583				
Motor vehicles & equipment								
Opening backlog	15,181	13,614	11,289	9,091				
Newly approved	2,386	1,565	1,408	973	2,411	1,575	1,404	972
Canceled	776	477	516	29	784	480	515	29
Capital expenditure	3,177	3,413	3,090	2,592	3,210	3,436	3,075	2,589
Closing backlog	13,614	11,289	9,091	7,443				
Other transportation equipment								
Opening backlog	3,941	3,802	3,198	3,092				
Newly approved	1,309	1,086	1,472	1,398	1,315	1,100	1,520	1,441
Canceled	-4	50	104	-10	-4	51	108	-10
Capital expenditure	1,452	1,640	1,474	1,573	1,459	1,661	1,522	1,621
Closing backlog	3,802	3,198	3,092	2,927				
Stone, clay & glass								
Opening backlog	2,017	1,804	1,989	1,886				
Newly approved	484	739	511	662	490	751	513	669
Canceled	89	-21	-91	218	90	-21	-91	221
Capital expenditure	608	575	705	486	615	585	711	493
Closing backlog	1,804	1,989	1,886	1,844				
Fabricated metals								
Opening backlog	1,259	1,357	1,344	1,265				
Newly approved	447	348	217	263	452	354	220	263
Canceled	28	41	23	38	28	42	24	38
Capital expenditure	321	320	273	409	325	326	278	413
Closing backlog	1,357	1,344	1,265	1,081				

TABLE 1. CAPITAL APPROPRIATIONS AND EXPENDITURES (continued)

	Current Dollars				Constant Dollars			
	I-86	II-86	III-86(r)	IV-86(p)	I-86	II-86	III-86(r)	IV-86(p)
Instruments & photo equipment								
Opening backlog	1,847	1,880	1,854	1,935				
Newly approved	956	848	931	924	961	846	961	954
Canceled	20	53	5	532	20	53	5	546
Capital expenditure	903	821	845	807	908	819	872	824
Closing backlog	1,880	1,854	1,935	1,520				
Other durable goods†								
Opening backlog	2,269	2,223	1,952	1,566				
Newly approved	654	365	907	1,919	634	352	896	1,906
Canceled	46	35	275	249	45	34	272	247
Capital expenditure	654	601	1,018	788	634	579	1,006	782
Closing backlog	2,223	1,952	1,566	2,448				
NONDURABLE GOODS								
Opening backlog	52,791	52,005	49,382	48,308				
Newly approved	11,773	10,413	10,152	10,970	11,821	10,472	10,204	11,064
Canceled	472	607	960	8,042	478	611	969	7,999
Capital expenditure	12,087	12,429	10,266	10,283	12,142	12,503	10,282	10,354
Closing backlog	52,005	49,382	48,308	40,953				
Food & beverages								
Opening backlog	6,183	6,660	6,404	6,288				
Newly approved	2,348	1,649	1,710	2,252	2,355	1,647	1,713	2,268
Canceled	258	135	15	-24	259	135	15	-24
Capital expenditure	1,613	1,770	1,811	1,991	1,618	1,768	1,815	2,004
Closing backlog	6,660	6,404	6,288	6,573				
Textiles								
Opening backlog	440	453	453	571				
Newly approved	212	188	357	232	215	190	365	238
Canceled	45	25	20	7	46	25	20	7
Capital expenditure	154	163	219	254	156	165	222	257
Closing backlog	453	453	571	542				
Paper & allied products								
Opening backlog	4,675	4,111	3,909	3,965				
Newly approved	528	1,203	1,461	1,456	535	1,223	1,488	1,481
Canceled	79	73	272	185	80	74	277	188
Capital expenditure	1,013	1,332	1,133	981	1,027	1,354	1,154	1,003
Closing backlog	4,111	3,909	3,965	4,255				
Chemicals & allied products								
Opening backlog	7,894	7,898	7,257	7,016				
Newly approved	2,797	3,574	2,562	2,649	2,818	3,585	2,585	2,682
Canceled	83	158	375	632	84	159	383	641
Capital expenditure	2,710	4,057	2,424	2,739	2,730	4,070	2,446	2,775
Closing backlog	7,898	7,257	7,016	6,294				
Petroleum and coal products								
Opening backlog	25,873	25,198	24,480	23,799				
Newly approved	4,435	2,975	2,554	2,898	4,448	3,002	2,517	2,876
Canceled	232	207	155	7,264	233	209	153	7,209
Capital expenditure	4,878	3,486	3,080	3,192	4,892	3,518	3,036	3,168
Closing backlog	25,198	24,480	23,799	16,241				
Rubber products								
Opening backlog	3,107	2,719	2,129	1,889				
Newly approved	543	196	471	394	546	198	478	402
Canceled	-2	-17	42	-18	-2	-17	42	-18
Capital expenditure	933	803	669	300	939	812	659	298
Closing backlog	2,719	2,129	1,889	2,001				
Other nondurable goods†								
Opening backlog	4,619	4,966	4,750	4,780				
Newly approved	910	628	1,037	1,089	904	627	1,058	1,117
Canceled	-223	26	77	-4	-222	26	79	-4
Capital expenditure	786	818	930	826	781	816	950	849
Closing backlog	4,966	4,750	4,780	5,047				

See General Notes

TABLE 2. PERCENT CHANGES IN CAPITAL APPROPRIATIONS AND EXPENDITURES

Seasonally Adjusted Data in Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	I-86 to II-86	II-86 to III-86	III-86 to IV-86	IV-86 to IV-85	I-86 to II-86	II-86 to III-86	III-86 to IV-86	IV-86 to IV-85
				—APPROPRIATIONS—				
ALL MANUFACTURING	−14.5	1.1	12.3	−16.8	−14.4	1.3	12.5	−14.7
ALL MFG. EX PETROLEUM	−10.2	3.7	12.2	− 6.0	−10.1	4.4	12.3	− 3.3
DURABLE GOODS	−17.5	4.9	16.6	− 2.9	−17.4	5.6	16.7	− 0.3
Primary iron & steel	89.9	269.7	−23.8	−55.8	−89.9	266.7	−23.6	72.8
Primary nonferrous metals	−38.3	14.5	94.5	20.0	−38.3	15.5	95.0	22.8
Electrical machinery & equipment	50.1	− 0.7	9.2	27.3	50.8	− 0.4	9.1	31.8
Nonelectrical machinery	−19.5	−18.7	39.0	−17.5	−19.0	−17.7	39.6	−13.1
Motor vehicles & equipment	−34.4	−10.0	−30.9	−67.7	−34.7	−10.9	−30.8	−67.4
Other transportation equipment	−17.0	35.5	− 5.0	5.4	−16.3	38.2	− 5.2	10.5
Stone, clay & glass	52.7	−30.9	29.5	18.2	53.8	−31.7	30.4	20.1
Fabricated metals	−22.1	−37.6	21.2	−15.2	−21.7	−37.9	19.5	−14.6
Instruments & photo equipment	−11.3	9.8	− 0.8	−13.4	−12.0	13.6	− 0.7	− 9.8
Other durable goods†	−44.2	148.5	111.6	260.0	−44.5	154.5	112.7	260.3
NONDURABLE GOODS	−11.6	− 2.5	8.1	−27.8	−11.4	− 2.6	8.4	−26.5
Food & beverages	−29.8	3.7	31.7	2.4	−30.1	4.0	32.4	− 4.3
Textiles	−11.3	89.9	−35.0	36.5	−11.6	92.1	−34.8	41.7
Paper & allied products	127.8	21.4	− 0.3	121.3	128.6	21.7	− 0.5	126.1
Chemicals & allied products	27.8	−28.3	3.4	− 7.0	27.2	−27.9	3.8	− 5.2
Petroleum & coal products	−32.9	−14.2	13.5	−53.3	−32.5	−16.2	−14.3	−53.2
Rubber products	−63.9	140.3	−16.3	−81.6	−63.7	141.4	−15.9	−81.1
Other nondurable goods†	−31.0	65.1	5.0	13.2	−30.6	68.7	5.6	17.2
				—EXPENDITURES—				
ALL MANUFACTURING	3.2	− 7.6	4.2	−11.2	3.3	− 7.6	4.6	− 9.3
ALL MFG. EX PETROLEUM	−11.4	− 7.0	4.3	− 3.9	11.4	− 6.6	4.6	− 1.6
DURABLE GOODS	3.5	2.6	7.6	− 3.4	3.6	5.6	7.8	6.1
Primary iron & steel	−49.3	6.1	11.8	−46.6	−49.1	4.9	12.3	−43.7
Primary nonferrous metals	−13.4	− 8.7	50.4	47.5	−13.3	− 8.1	51.4	51.4
Electrical machinery & equipment	27.4	4.8	53.7	72.7	27.9	5.1	55.8	76.5
Nonelectrical machinery	4.6	11.1	10.2	−20.3	5.2	12.5	10.6	−16.1
Motor vehicles & equipment	7.4	− 9.5	−16.1	−17.9	7.0	−10.5	−15.8	−17.3
Other transportation equipment	12.9	−10.1	6.7	30.6	13.8	− 8.4	6.5	37.0
Stone, clay & glass	− 5.4	22.6	−31.1	−28.4	− 4.9	21.5	−30.7	−27.1
Fabricated metals	− 0.3	−14.7	49.8	26.2	0.3	−14.7	48.6	28.3
Instruments & photo equipment	− 9.1	2.9	− 4.5	− 8.1	− 9.8	6.5	− 5.5	− 5.4
Other durable goods†	− 8.1	69.4	−22.6	− 3.0	− 8.7	73.7	−22.3	− 3.1
NONDURABLE GOODS	2.8	−17.4	0.2	6.0	3.0	−17.8	0.7	−23.6
Food & beverages	9.7	2.3	9.9	7.6	9.3	2.7	10.4	9.5
Textiles	5.8	34.4	16.0	91.0	5.8	34.5	15.8	94.7
Paper & allied products	31.5	−14.9	13.4	13.6	31.8	−14.8	−13.1	−11.2
Chemicals & allied products	49.7	−40.3	13.0	5.6	49.1	−39.9	13.5	7.6
Petroleum & coal products	−28.5	−11.6	3.6	−39.9	−28.1	−13.7	4.3	−39.9
Rubber products	−13.9	−16.7	−55.2	−84.5	−13.5	−18.8	−54.8	−84.5
Other nondurable goods†	4.1	13.7	−11.2	19.0	4.5	16.4	−10.6	23.6

TABLE 3. CAPITAL APPROPRIATIONS AND EXPENDITURES, ANNUAL TOTALS

In Millions of Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	1983	1984	1985	1986	1983	1984	1985	1986
				—APPROPRIATIONS—				
ALL MANUFACTURING	88,180	116,056	107,142	87,557	88,804	116,709	106,570	88,246
ALL MFG. EX PETROLEUM	62,462	90,598	82,473	73,593	62,882	91,088	82,029	74,291
DURABLE GOODS	37,537	59,618	51,657	43,327	37,790	59,933	51,354	43,761
Primary iron & steel	2,113	2,125	2,001	1,826	2,123	2,135	2,001	1,851
Primary nonferrous metals	1,164	1,363	1,237	1,588	1,175	1,371	1,233	1,608
Electrical machinery & equipment	8,869	11,987	8,254	9,270	8,945	12,042	8,206	9,364
Nonelectrical machinery	7,909	10,854	11,408	7,618	7,964	10,907	11,311	7,748
Motor vehicles & equipment	5,807	16,686	11,711	6,470	5,856	16,789	11,650	6,504
Other transportation equipment	3,601	5,059	6,200	5,269	3,617	5,089	6,162	5,355
Stone, clay & glass	1,625	2,767	2,945	2,378	1,634	2,781	2,935	2,404
Fabricated metals	960	1,221	1,342	1,314	964	1,226	1,338	1,328
Instruments & photo equipment	3,614	4,859	4,015	3,669	3,632	4,881	3,994	3,731
Other durable goods†	1,875	2,697	2,544	3,925	1,881	2,711	2,524	3,865
NONDURABLE GOODS	50,643	56,438	55,485	44,230	51,014	56,776	55,215	44,485
Food & beverages	5,909	6,993	8,127	7,968	5,957	7,035	8,072	7,991
Textiles	1,194	1,104	718	986	1,201	1,111	716	1,005
Paper & allied products	3,231	5,936	3,269	4,646	3,237	5,967	3,266	4,725
Chemicals & allied products	10,002	11,831	11,479	11,572	10,080	11,888	11,432	11,661
Petroleum & coal products	25,718	25,458	24,669	13,964	25,922	25,620	24,540	13,955
Rubber products	965	1,616	4,306	1,498	968	1,631	4,293	1,515
Other nondurable goods†	3,624	3,500	2,917	3,596	3,648	3,524	2,897	3,633
				—EXPENDITURES—				
ALL MANUFACTURING	75,710	90,308	99,569	93,936	76,319	78,957	98,987	94,653
ALL MFG. EX PETROLEUM	55,269	68,676	77,706	79,615	55,671	60,367	77,246	80,361
DURABLE GOODS	32,254	42,865	49,498	49,276	32,492	37,545	49,177	49,776
Primary iron & steel	2,136	1,984	2,591	1,726	2,145	1,750	2,588	1,798
Primary nonferrous metals	1,207	1,385	1,339	1,713	1,219	1,221	1,334	1,737
Electrical machinery & equipment	6,964	10,100	9,075	10,450	7,027	8,906	9,020	10,565
Nonelectrical machinery	7,768	8,648	10,215	6,972	7,826	7,543	10,114	7,111
Motor vehicles & equipment	4,007	6,991	10,435	12,137	4,039	6,176	10,374	12,169
Other transportation equipment	3,179	4,338	5,133	6,146	3,204	3,697	5,093	6,275
Stone, clay & glass	1,666	2,083	2,897	2,347	1,675	1,845	2,888	2,377
Fabricated metals	871	1,025	1,155	1,349	875	903	1,151	1,368
Instruments & photo equipment	3,145	4,202	3,763	3,363	3,163	3,688	3,744	3,411
Other durable goods†	1,311	2,109	2,895	3,073	1,319	1,814	2,873	3,015
NONDURABLE GOODS	43,456	47,443	50,071	44,660	43,827	41,412	49,810	44,877
Food & beverages	5,426	5,374	6,552	7,214	5,471	4,675	6,506	7,234
Textiles	975	1,164	743	790	980	1,025	741	800
Paper & allied products	3,357	3,842	4,001	4,418	3,372	3,460	3,994	4,499
Chemicals & allied products	9,340	11,211	10,619	11,961	9,409	9,931	10,571	12,055
Petroleum & coal products	20,441	21,632	21,863	14,321	20,648	18,590	21,741	14,292
Rubber products	889	1,216	3,531	2,593	894	1,075	3,514	2,596
Other nondurable goods†	3,028	3,004	2,762	3,363	3,053	2,655	2,743	3,401

GENERAL NOTES

Data for 1986-III are revised; data for 1986-IV are preliminary. All Constant dollar data have been revised to 1982 dollars.

Amounts shown as "canceled" in Table 1 also include adjustments and corrections to appropriations backlogs, such as cost over- or under-runs.

All estimates are based on a survey and are for the survey population, which is composed of the 1,000 largest manufacturing companies as ranked by total assets. These companies accounted for approximately 75% of all manufacturing corporations' assets in 1979.

Historical data from 1953 available on request for quarterly series seasonally adjusted and quarterly series not seasonally adjusted.

†Other durables includes lumber, furniture and fixtures, and miscellaneous manufactures; other nondurables includes tobacco, apparel, printing and publishing, and leather.

TABLE 4. ADEQUACY OF CAPITAL FACILITIES

Percent Distribution of Responding Companies Weighted by Assets

	Oct. 1984	Jan. 1985	Apr. 1985	July 1985	Oct. 1985	Jan. 1986	Apr. 1986	July 1986	Oct. 1986	Jan. 1987
					Inadequate					
All Manufacturing	10.0	11.0	10.9	9.1	9.1	9.4	8.5	7.9	5.1	8.7
Durable goods	16.8	15.7	17.4	17.3	17.5	16.8	14.3	13.4	7.8	16.0
Nondurable goods	4.3	6.4	5.3	2.4	2.7	2.7	2.7	2.9	2.8	3.1
					Sufficient					
All Manufacturing	54.4	52.9	50.2	52.7	52.0	52.9	51.1	58.5	57.5	62.6
Durable goods	50.3	53.1	54.4	53.5	48.2	47.5	52.7	54.7	60.4	51.8
Nondurable goods	57.8	52.7	46.5	52.1	54.9	57.8	49.5	61.9	55.2	70.9
					More Than Adequate					
All Manufacturing	35.6	36.1	38.9	38.2	38.9	37.7	40.4	33.6	37.4	28.7
Durable goods	32.9	31.2	28.2	29.2	34.3	35.7	33.0	31.9	31.8	32.2
Nondurable goods	37.9	40.9	48.2	45.5	42.4	39.5	47.8	35.2	42.0	26.0

TABLE 5. CHANGE IN CAPITAL FACILITIES EXPECTED FROM CURRENT SPENDING PROGRAMS

Percent Distribution of Responding Companies Weighted by Assets

	Oct. 1984	Jan. 1985	Apr. 1985	July 1985	Oct. 1985	Jan. 1986	Apr. 1986	July 1986	Oct. 1986	Jan. 1987
					Expansion					
All Manufacturing	52.7	51.4	50.9	49.5	45.6	39.4	42.9	42.7	42.6	43.1
Durable goods	58.8	58.9	60.2	52.4	50.3	45.9	41.8	40.5	48.9	44.1
Nondurable goods	47.6	43.9	42.6	47.1	42.0	33.6	43.9	44.6	37.8	42.3
					No Change					
All Manufacturing	44.8	46.9	42.3	47.3	49.1	55.4	51.0	51.8	49.4	46.4
Durable goods	36.4	37.8	32.9	41.5	40.8	45.7	47.7	50.8	34.8	34.3
Nondurable goods	51.9	56.0	50.7	52.1	55.5	64.2	54.2	52.8	60.7	55.6
					Reduction					
All Manufacturing	2.5	1.7	6.8	3.2	5.3	5.2	6.1	5.5	8.0	10.6
Durable goods	4.8	3.3	6.9	6.1	8.9	8.4	10.5	8.7	16.3	21.7
Nondurable goods	0.6	0.1	6.7	0.8	2.5	2.2	1.9	2.6	1.5	2.1

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Reproduction permissible with full citation to The Conference Board as source.
Published quarterly at 845 Third Avenue, New York, New York 10022.

8/27/87 R4105-12A

The Conference Board's

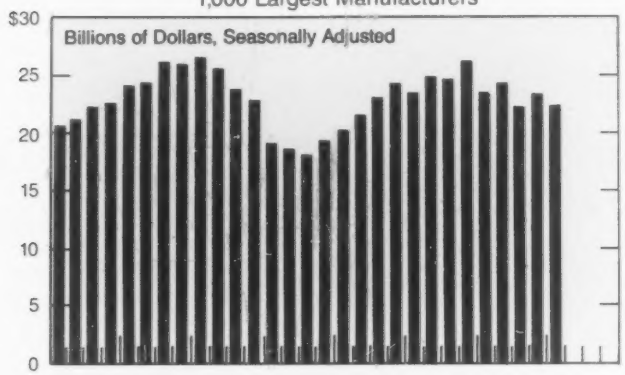
Economic Analysis Program

Capital Appropriations

A Quarterly Report from The Conference Board **First Quarter 1987**

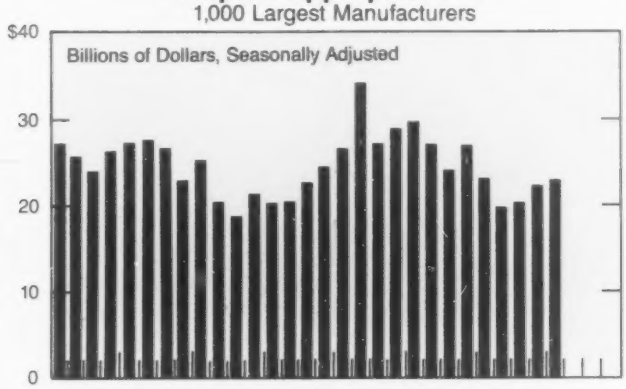
Capital Expenditures

1,000 Largest Manufacturers



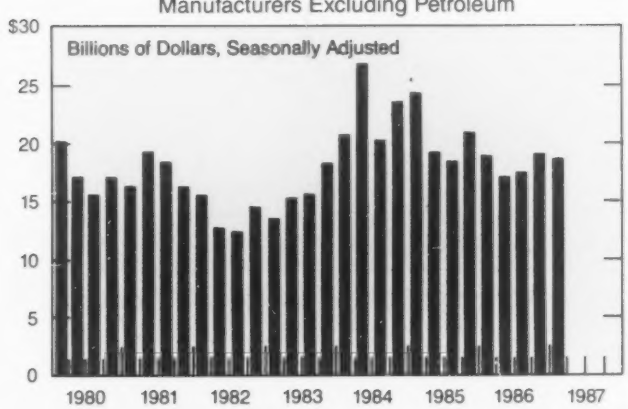
Capital Appropriations

1,000 Largest Manufacturers



Capital Appropriations

Manufacturers Excluding Petroleum



Source: The Conference Board

Highlights

- Capital spending fell 4.9% in first quarter of 1987; a 4.5-5% rise is forecast for the year as a whole.
- Capital appropriations rose 3.9% in the first quarter, bolstered by a substantial increase in the petroleum industry.
- First-quarter capital appropriations outpaced expenditures for the first time in over a year. As a result, the closing backlog of unspent appropriations stabilized at $69.2 billion, following an $11 billion plunge in the previous quarter.
- The recent rise in inflation is not expected to hinder capital spending plans.
- Optimism prevails for the 1987 investment outlook, as surveyed manufacturers project an 11% increase in expenditures and a 32% increase in appropriations for the year.

Overview

Survey respondents expect a 32% increase in appropriations and an 11% rise in expenditures for 1987. This would translate into appropriations of $115 billion and expeditures of $104 billion. If the respondents' expectations prove correct, expenditures would reach an all-time high. Some of the more optimistic respondents are also relying on appropriations to continue to exceed expenditures. If this pattern persists, the remaining quarters of 1987 could register a marked improvement in expenditures. Without a second-quarter increase in the closing backlog, however, outlays could falter.

In our view, the trend in appropriations and closing backlogs does not lend total support to the respondents' expectations. Appropriations are simply not growing fast enough to realize expenditure growth of 11 percent this year, as revealed by a first-quarter 1.2% decline in appropriations by manufacturers (excluding the petroleum industry). The closing backlog fell in eight of the seventeen major industry groups. The lack of broad-based support will probably result in a gradual growth of expenditures for 1987 of only 4.5-5% (3-3.5%, adjusting for inflation); appropriations are expected to rise 11 percent.

If capital spending accelerates sufficiently to meet the respondents' expectations, it would help to lift the economy's growth rate above earlier projections. It is more likely, however, that growth in capital spending will not supply the added punch. Sluggishness in consumer spending supports the less optimistic scenario.

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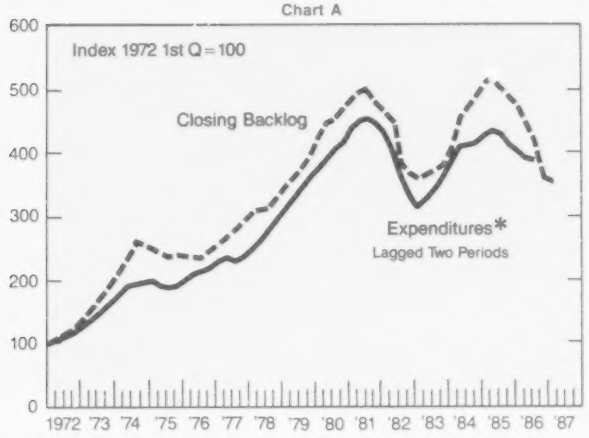
Closing Backlog versus Expenditures

1,000 Largest Manufacturers

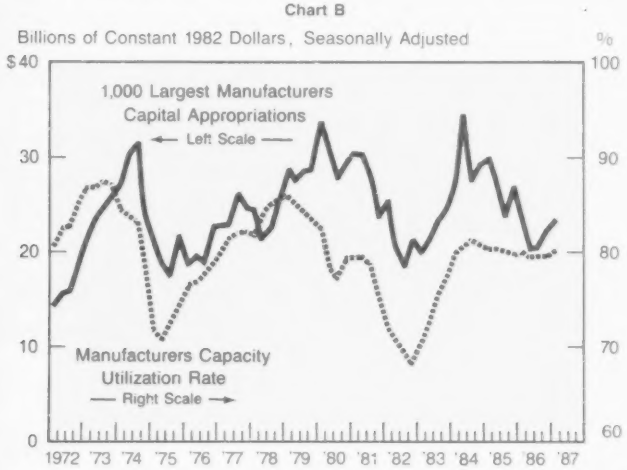
Chart A



*Expenditures are 6 month moving average
Source: The Conference Board

Capital Appropriations and Capacity Utilization

Chart B



Sources: Board of Governors, The Federal Reserve System, The Conference Board

Expenditures Dropped 5%, Partially Due to Tax Reform

First-quarter capital expenditures by the nation's 1,000 largest manufacturers dropped 4.9%, following an increase of 3.8% in the fourth quarter of 1986. The first-quarter decline occurred primarily in industries where spending in 1986 had hit an all-time high. Capital spending, excluding the petroleum industry, decreased by 4.4% in the first quarter but was 1.9% higher than the same period last year. A note of caution: In light of the 1986 Tax Reform Act, a more appropriate measure of recent investment performance may be the average of the last two quarters (IV86-I87), which shows virtually no change in capital outlays since the second quarter of 1986.

Appropriations Rose due to growing Concern Over Competition

Despite a decline in first-quarter capital expenditures, new appropriations for future spending on plant and equipment by the nation's largest manufacturers increased for the third consecutive quarter. At $23 billion, appropriations reached their highest level since the first quarter of 1986.

The 3.9% first-quarter increase in appropriations mainly reflects strong gains in three nondurable goods industries: petroleum, chemicals, and rubber. The durable goods sector and the remaining nondurable goods industries did not fare as well.

Since the second quarter of 1986, when appropriations hit their lowest level since the recession's end in 1982, appropriations by the larger manufacturers have grown 14.8 percent. Total merchandise exports rose by 12.5% over the same period. The increase in appropriations and the improved trade picture, combined with concern about domestic and foreign competition, point to a gradual rise in capital outlays this year.

The Closing Backlog: Will The Downward Spiral End?

Following a fourth quarter plunge of $11 billion, the closing backlog of unspent capital appropriations remained virtually unchanged at $69.2 billion at the end of the first quarter. This occurred because appropriations exceeded expenditures for the first time since the closing backlog started to drop in the third quarter of 1985.

Since closing backlogs have been a reliable leading indicator of the next and following quarter's capital spending (Chart A), we can expect a strengthening in spending in the second and third quarters. However, we should not expect a large increase—no more than 5% for the second quarter—because the backlog has not yet begun to rise.

Capacity Utilization and Appropriations: Do the Old Relationships Still Hold?

The three consecutive quarterly increases in appropriations are puzzling when viewed in conjunction with the virtual stagnation of capacity utilization rates. Changes in capacity utili-

zation have typically been closely related to movements in capital appropriations (Chart B). The trend in appropriations over the past three years, however, does not follow the traditional relationship with utilization rates.

According to Federal Reserve Board data, manufacturing capacity utilization now stands at 80.2%, reflecting little change since May of 1985. However, the reliability of the capacity utilization data is begining to come under closer scrutiny by some private economists, who argue that the rates may be undervalued due, in part, to the restructuring of the manufacturing sector over the past two years. Continued increases in appropriations may cast further doubt on the reliability of the utilization data. If, on the other hand, the credibility of the past relationship between utilization rates and appropriations is upheld, we probably will not see as dramatic an increase in appropriations in 1987 as projected by the surveyed companies.

Spending Outlook: Increasing Optimism Reported

The scenario for the rest of 1987 is for a gradual increase in capital spending in each of the three remaining quarters, with a stronger spurt possible in the fourth quarter. For the year as a whole, a spending rise of 4-5% (in nominal terms) appears more likely than the 11% increase anticipated by the survey respondents. This forecast is a full percentage point higher than we predicted last quarter, based on current economic trends and the findings of this and other surveys.

The projected 4.5-5% rise in capital spending is supported by continuing increases in appropriations, the apparent end to the decline of the closing backlog, and the bullish attitudes of survey respondents. In addition, foreign firms, by increasing their investments in the US and at home, are putting added pressure on domestic manufacturers to invest. The wave of restructuring of the past two years has intensified the need to eliminate outdated plant and equipment and to spend more to boost the productivity of remaining facilities. Continued media attention will add to the pressures to modernize and to increase efficiency. Moreover, corporate tax rates, which are scheduled to fall July 1, will increase after-tax profits.

Overall, the outlook for capital spending is brighter for the nondurable goods sector than for the durable goods sector. Substantial increases in capital spending are likely in the food and beverage, textiles, and "other durable goods" industries. Decreased spending is anticipated in the motor-vehicle, fabricated metals, photographic equipment and instruments, and rubber industries.

In the final analysis, the keys to capital spending this year may lie with the petroleum industry, stabilization of the dollar, and continuing improvement in trade. The petroleum industry has historically accounted for approximately 20% of total manufacturers' expenditures; in 1986, however, due to the fall in oil prices, it accounted for only 15 percent. Should the petroleum industry increase spending by more than its projected 2.5%, it may pull up total spending above our current forecast. A firming of the dollar would add a needed element of stability in the economy, facilitating long-term planning. An important variable, however, is the trade balance. If capacity utilization rates are infact higher than those reported by the Federal Reserve Board, continued export growth combined with diminishing import penetration, could add pressure for capacity expansion. This could then translate into an acceleration in capital spending.

Inflation: Will it Hurt Investment?

Without question, the rate of inflation will be higher this year than in 1986. Last year,the CPI rose a scant 1.9 percent. This year's forecast is for a 4% increase, followed by a 5% increase in 1988. Increases in the rate of inflation usually exert a downward pressure on investment: the cost of funding rises, as do the expenses of maintaining investment projects and the costs of operating. At the same time, uncertainty about future costs and prices intensifies.

The current round of inflation should not significantly depress capital spending plans, however. This year's inflation is being fueled by the recovery in energy prices and the previous devaluation of the dollar. On a positive note, global capacity is more than adequate, and there are no significant wage pressures. In fact, hourly compensation is likely to rise by only 2-3% this year, which would be its lowest increase in four decades. Increases in energy prices, specifically oil, should have a net positive effect—it should increase capital spending by the petroleum industry, which dropped its outlays by 35% last year, offsetting gains elsewhere. In response to the dollar's decline, import prices have increased, allowing some U.S. firms to mark up prices gradually. The resulting widening of profit margins is boosting the internal cash flow available for financing new investment projects.

Walter R. Arvin
July 3, 1987

TABLE 1. CAPITAL APPROPRIATIONS AND EXPENDITURES

Seasonally Adjusted Data in Millions of Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	II-86	III-86	IV-86(r)	I-87(p)	II-86	III-86	IV-86(r)	I-87(p)
ALL MANUFACTURING								
Opening backlog	92,216	85,769	80,713	69,720				
Newly approved	19,991	20,203	22,097	22,955	20,127	20,398	22,380	23,112
Canceled	2,129	2,807	9,791	1,369	2,149	2,839	9,786	1,389
Capital expenditure	24,309	22,452	23,299	22,151	24,468	22,607	23,561	22,275
Closing backlog	85,769	80,713	69,720	69,155				
Manufacturing Excluding Petroleum								
Opening backling	67,018	61,289	56,914	53,015				
Newly approved	17,016	17,649	19,016	18,791	17,125	17,881	19,322	19,001
Canceled	1,922	2,652	3,008	1,631	1,940	2,686	3,055	1,647
Capital expenditure	20,823	19,372	19,907	19,040	20,950	19,571	20,194	19,203
Closing backling	61,289	56,914	53,015	51,135				
DURABLE GOODS								
Opening backlog	40,211	36,387	32,401	28,261				
Newly approved	9,578	10,051	10,807	10,431	9,655	10,194	10,987	10,563
Canceled	1,522	1,851	2,032	880	1,538	1,870	2,065	895
Capital expenditure	11,880	12,186	12,915	12,088	11,965	12,325	13,108	12,203
Closing backlog	36,387	32,401	28,261	25,724				
Primary iron & steel								
Opening backlog	1,490	880	573	465				
Newly approved	109	403	324	780	111	407	328	785
Canceled	375	345	46	-46	382	348	47	-47
Capital expenditure	344	365	386	494	350	367	390	497
Closing backlog	880	573	465	797				
Primary nonferrous metals								
Opening backlog	2,044	1,810	1,645	1,604				
Newly approved	256	293	425	610	258	298	429	620
Canceled	110	111	60	25	111	113	60	25
Capital expenditure	380	347	406	416	383	352	410	419
Closing backlog	1,810	1,645	1,604	1,773				
Electrical machinery & equipment								
Opening backlog	4,700	4,715	4,853	3,282				
Newly approved	2,457	2,441	2,753	2,730	2,480	2,471	2,794	2,761
Canceled	266	22	990	24	268	22	1,004	24
Capital expenditure	2,176	2,281	3,334	2,821	2,196	2,309	3,384	2,853
Closing backlog	4,715	4,853	3,282	3,167				
Nonelectrical machinery								
Opening backlog	7,297	7,356	6,495	6,537				
Newly approved	1,805	1,468	1,884	1,473	1,828	1,504	1,935	1,504
Canceled	136	541	-22	367	138	554	-22	375
Capital expenditure	1,610	1,788	1,864	1,684	1,630	1,833	1,914	1,720
Closing backlog	7,356	6,495	6,537	5,959				
Motor vehicles & equipment								
Opening backlog	13,614	11,289	9,091	7,297				
Newly approved	1,565	1,408	915	856	1,575	1,404	915	850
Canceled	477	516	26	176	480	515	26	174
Capital expenditure	3,413	3,090	2,683	2,848	3,436	3,075	2,682	2,826
Closing backlog	11,289	9,091	7,297	5,129				
Other transportation equipment								
Opening backlog	3,802	3,198	3,092	3,161				
Newly approved	1,086	1,472	1,604	1,586	1,100	1,520	1,652	1,626
Canceled	50	104	-26	251	51	108	-27	258
Capital expenditure	1,640	1,474	1,561	1,605	1,661	1,522	1,608	1,646
Closing backlog	3,198	3,092	3,161	2,891				
Stone, clay & glass								
Opening backlog	1,804	1,989	1,886	1,793				
Newly approved	739	511	896	651	751	513	908	657
Canceled	-21	-91	256	56	-21	-91	260	57
Capital expenditure	575	705	733	549	585	711	745	556
Closing backlog	1,989	1,886	1,793	1,839				
Fabricated metals								
Opening backlog	1,357	1,344	1,265	1,120				
Newly approved	348	217	248	103	354	220	250	103
Canceled	41	23	20	-29	42	24	20	-29
Capital expenditure	320	273	373	230	326	278	379	230
Closing backlog	1,344	1,265	1,120	1,022				

TABLE 1. CAPITAL APPROPRIATIONS AND EXPENDITURES (continued)

	Current Dollars				Constant Dollars			
	II-86	III-86	IV-86(r)	I-87(p)	II-86	III-86	IV-86(r)	I-87(p)
Instruments & photo equipment								
Opening backlog	1,880	1,854	1,935	1,356				
Newly approved	848	931	782	850	846	961	807	874
Canceled	53	5	522	69	53	5	539	71
Capital expenditure	821	845	839	790	819	872	865	812
Closing backlog	1,854	1,935	1,356	1,347				
Other durable goods†								
Opening backlog	2,223	1,952	1,566	1,646				
Newly approved	365	907	976	792	352	896	969	783
Canceled	35	275	160	-13	34	272	158	-13
Capital expenditure	601	1,018	736	651	579	1,006	731	644
Closing backlog	1,952	1,566	1,646	1,800				
NONDURABLE GOODS								
Opening backlog	52,005	49,382	48,312	41,459				
Newly approved	10,413	10,152	11,290	12,524	10,472	10,204	11,393	12,549
Canceled	607	956	7,759	489	611	969	7,721	494
Capital expenditure	12,429	10,266	10,384	10,063	12,503	10,282	10,453	10,072
Closing backlog	49,382	48,312	41,459	43,431				
Food & beverages								
Opening backlog	6,660	6,404	6,288	6,626				
Newly approved	1,649	1,710	2,410	2,041	1,647	1,713	2,425	2,034
Canceled	135	15	74	148	135	15	74	148
Capital expenditure	1,770	1,811	1,998	1,990	1,768	1,815	2,012	1,983
Closing backlog	6,404	6,288	6,626	6,529				
Textiles								
Opening backlog	453	453	571	655				
Newly approved	188	357	338	307	190	365	348	313
Canceled	25	20	30	26	25	20	30	26
Capital expenditure	163	219	224	248	[illegible]	222	228	250
Closing backlog	453	571	655	688				
Paper & allied products								
Opening backlog	4,111	3,909	3,965	4,429				
Newly approved	1,203	1,461	1,653	1,762	1,223	1,488	1,689	1,791
Canceled	73	272	148	-10	74	277	152	-10
Capital expenditure	1,332	1,133	1,041	1,161	1,354	1,154	1,064	1,180
Closing backlog	3,909	3,965	4,429	5,040				
Chemicals & allied products								
Opening backlog	7,898	7,257	7,020	6,215				
Newly approved	3,574	2,562	2,458	3,001	3,585	2,585	2,489	3,026
Canceled	158	375	689	209	159	383	698	210
Capital expenditure	4,057	2,424	2,574	2,317	4,070	2,446	2,607	2,337
Closing backlog	7,257	7,020	6,215	6,690				
Petroleum and coal products								
Opening backlog	25,198	24,480	23,799	16,705				
Newly approved	2,975	2,554	3,081	4,164	3,002	2,517	3,058	4,111
Canceled	207	155	6,783	-262	209	153	6,731	-258
Capital expenditure	3,486	3,080	3,392	3,111	3,518	3,036	3,367	3,072
Closing backlog	24,480	23,799	16,705	18,020				
Rubber products								
Opening backlog	2,719	2,129	1,889	1,894				
Newly approved	196	471	309	533	198	478	315	541
Canceled	-17	42	-8	355	-17	42	-8	355
Capital expenditure	803	669	312	383	812	659	309	377
Closing backlog	2,129	1,889	1,894	1,689				
Other nondurable goods†								
Opening backlog	4,966	4,750	4,780	4,935				
Newly approved	628	1,037	1,041	716	627	1,058	1,069	733
Canceled	26	77	43	23	26	79	44	23
Capital expenditure	818	930	843	853	816	950	866	873
Closing backlog	4,750	4,780	4,935	4,775				

See General Notes

TABLE 2. PERCENT CHANGES IN CAPITAL APPROPRIATIONS AND EXPENDITURES

Seasonally Adjusted Data in Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	II-86 to III-86	III-86 to IV-86	IV-86 to I-87	I-87 to I-86	II-86 to III-86	III-86 to IV-86	IV-86 to I-87	I-87 to IV-86
				—APPROPRIATIONS—				
ALL MANUFACTURING	1.1	9.4	3.9	−1.8	1.3	9.7	3.3	−1.7
ALL MFG. EX PETROLEUM	3.7	7.7	−1.2	−0.8	4.4	8.1	−1.7	−0.3
DURABLE GOODS	4.9	7.7	− 3.5	−10.2	5.6	7.8	− 3.9	− 9.6
Primary iron & steel	269.7	−19.6	140.7	−27.9	266.7	−19.4	139.3	−28.5
Primary nonferrous metals	14.5	45.1	43.5	47.0	15.5	44.0	44.5	48.3
Electrical machinery & equipment	− 0.7	12.8	− 0.8	66.8	− 0.4	13.1	− 1.2	67.8
Nonelectrical machinery	−18.7	28.3	−21.8	−34.3	−17.7	28.7	−22.3	−33.4
Motor vehicles & equipment	−10.0	−35.0	− 6.4	−64.1	−10.9	−34.8	− 7.1	−64.7
Other transportation equipment	35.5	7.0	− 1.1	21.2	38.2	8.7	− 1.6	23.7
Stone, clay & glass	−30.9	75.3	−27.3	34.5	−31.7	77.0	−27.6	34.1
Fabricated metals	−37.6	14.3	−58.5	−77.0	−37.9	13.6	−58.8	−77.2
Instruments & photo equipment	9.8	−16.0	8.7	−11.1	13.6	−16.0	8.3	− 9.1
Other durable goods†	148.5	7.6	−18.9	21.1	154.5	8.1	−19.2	23.5
NONDURABLE GOODS	− 2.5	11.2	10.9	6.4	− 2.6	11.7	10.1	6.2
Food & beverages	3.7	40.9	−15.3	−13.1	4.0	41.6	−16.1	−13.6
Textiles	89.9	− 5.3	− 9.2	44.8	92.1	− 4.7	−10.1	45.6
Paper & allied products	21.4	13.1	6.6	233.7	21.7	13.5	6.0	234.8
Chemicals & allied products	−28.3	− 4.1	22.1	7.3	−27.9	−3.7	21.6	7.4
Petroleum & coal products	−14.2	20.6	35.2	− 6.1	−16.2	21.5	34.4	− 7.6
Rubber products	140.3	−34.4	72.5	− 1.8	141.4	−34.1	71.7	− 0.9
Other nondurable goods†	65.1	0.4	−31.2	21.3	68.7	1.0	−31.4	−18.9
				—EXPENDITURES—				
ALL MANUFACTURING	− 7.6	3.8	− 4.9	−6.0	− 7.6	4.2	− 5.5	−6
ALL MFG. EX PETROLEUM	−7	2.8	− 4.4	1.9	− 6.6	3.2	− 4.9	2.3
DURABLE GOODS	2.6	6.0	− 6.4	5.3	5.6	6.4	− 6.9	5.7
Primary iron & steel	6.1	5.8	28.0	−27.1	4.9	6.3	27.4	−27.8
Primary nonferrous metals	− 8.7	17.0	2.5	− 3.3	− 8.1	16.5	2.2	− 5.2
Electrical machinery & equipment	4.8	46.2	−15.4	65.2	5.1	46.6	−15.7	66.2
Nonelectrical machinery	11.1	4.3	− 9.7	9.4	12.5	4.4	−10.1	11.0
Motor vehicles & equipment	− 9.5	−13.2	6.1	−10.4	−10.5	−12.8	− 5.4	−12.0
Other transportation equipment	−10.1	5.9	2.8	10.5	− 8.4	5.7	2.4	12.8
Stone, clay & glass	22.6	4.0	−25.1	− 9.7	21.5	4.8	−25.4	− 9.6
Fabricated metals	−14.7	36.6	−38.3	−28.3	−14.7	36.3	−39.3	−29.2
Instruments & photo equipment	− 2.9	− 0.7	− 5.8	−12.5	6.5	− 0.8	− 6.1	−10.6
Other durable goods†	−69.4	−27.7	−11.5	− 0.5	73.7	−27.3	−11.9	1.6
NONDURABLE GOODS	−17.4	1.1	− 3.1	−16.7	−17.8	1.7	− 3.6	−17.0
Food & beverages	2.3	10.3	− 0.4	23.4	2.7	10.9	− 1.4	22.6
Textiles	34.4	2.3	10.7	61.0	34.5	2.7	9.6	60.3
Paper & allied products	−14.9	− 8.1	11.5	14.6	−14.8	− 7.8	10.9	−14.9
Chemicals & allied products	40.3	6.2	−10.0	−14.5	−39.9	6.6	−10.4	−14.4
Petroleum & coal products	−11.6	10.1	− 8.3	−36.2	−13.7	10.9	− 8.8	−37.2
Rubber products	−16.7	−53.4	22.8	−58.9	−18.8	−53.1	22.0	−59.9
Other nondurable goods†	13.7	− 9.4	1.2	8.5	16.4	− 8.8	0.8	11.8

TABLE 3. CAPITAL APPROPRIATIONS AND EXPENDITURES, ANNUAL TOTALS

In Millions of Current and Constant (1982) Dollars

	Current Dollars				Constant Dollars			
	1983	1984	1985	1986	1983	1984	1985	1986
				—APPROPRIATIONS—				
ALL MANUFACTURING	88,180	116,056	107,142	87,225	88,804	116,708	106,570	86,767
ALL MFG. EX PETROLEUM	62,462	90,598	82,473	72,839	62,882	91,088	82,030	72,457
DURABLE GOODS	37,537	59,618	51,657	42,561	37,791	59,932	51,354	42,317
Primary iron & steel	2,113	2,125	2,001	1,849	2,123	2,135	2,001	1,849
Primary nonferrous metals	1,164	1,363	1,237	1,473	1,175	1,371	1,233	1,468
Electrical machinery & equipment	8,869	11,987	8,254	9,458	8,945	12,042	8,206	9,403
Nonelectrical machinery	7,909	10,854	11,408	7,535	7,964	10,907	11,311	7,471
Motor vehicles & equipment	5,807	16,686	11,711	6,486	5,856	16,789	11,650	6,452
Other transportation equipment	3,601	5,059	6,200	5,381	3,617	5,089	6,162	5,348
Stone, clay & glass	1,625	2,767	2,945	2,638	1,634	2,781	2,935	2,629
Fabricated metals	960	1,221	1,342	1,277	964	1,226	1,338	1,273
Instruments & photo equipment	3,614	4,859	4,015	3,466	3,632	4,881	3,994	3,448
Other durable goods†	1,875	2,697	2,544	2,998	1,881	2,711	2,524	2,975
NONDURABLE GOODS	50,643	56,438	55,485	44,664	51,013	56,776	55,216	44,451
Food & beverages	5,909	6,993	8,127	8,128	5,957	7,035	8,072	8,073
Textiles	1,194	1,104	718	1,062	1,201	1,111	716	1,059
Paper & allied products	3,231	5,936	3,269	4,642	3,237	5,967	3,266	4,638
Chemicals & allied products	10,002	11,831	11,479	11,353	10,080	11,888	11,432	11,307
Petroleum & coal products	25,718	25,458	24,669	14,386	25,922	25,620	24,540	14,311
Rubber products	965	1,616	4,306	1,506	968	1,631	4,293	1,501
Other nondurable goods†	3,624	3,500	2,917	3,587	3,648	3,524	2,897	3,562
				—EXPENDITURES—				
ALL MANUFACTURING	75,710	90,308	99,569	93,849	76,319	78,954	98,989	93,308
ALL MFG. EX PETROLEUM	55,269	68,676	77,706	79,184	55,671	60,364	77,248	78,725
DURABLE GOODS	32,254	42,865	49,498	49,114	32,492	37,543	49,179	48,804
Primary iron & steel	2,136	1,984	2,591	1,734	2,145	1,750	2,588	1,732
Primary nonferrous metals	1,207	1,385	1,339	1,593	1,219	1,221	1,334	1,587
Electrical machinery & equipment	6,964	10,100	9,075	10,287	7,027	8,906	9,020	10,225
Nonelectrical machinery	7,768	8,648	10,215	6,908	7,826	7,543	10,114	6,840
Motor vehicles & equipment	4,007	6,991	10,435	12,071	4,039	6,176	10,374	12,000
Other transportation equipment	3,179	4,338	5,133	6,107	3,204	3,697	5,093	6,059
Stone, clay & glass	1,666	2,083	2,897	2,663	1,675	1,845	2,888	2,655
Fabricated metals	871	1,025	1,155	1,313	875	903	1,151	1,308
Instruments & photo equipment	3,145	4,202	3,763	3,397	3,163	3,688	3,744	3,380
Other durable goods†	1,311	2,109	2,895	3,041	1,319	1,814	2,873	3,018
NONDURABLE GOODS	43,456	47,443	50,071	44,735	43,827	41,41.	49,810	44,504
Food & beverages	5,426	5,374	6,552	7,244	5,471	4,675	6,506	7,193
Textiles	975	1,164	743	758	980	1,025	741	756
Paper & allied products	3,357	3,842	4,001	4,451	3,372	3,460	3,994	4,443
Chemicals & allied products	9,340	11,211	10,619	11,676	9,409	9,931	10,571	11,623
Petroleum & coal products	20,441	21,632	21,863	14,665	20,648	18,590	21,741	14,583
Rubber products	889	1,216	3,531	2,585	894	1,075	3,514	2,573
Other nondurable goods†	3,028	3,004	2,762	3,356	3,053	2,655	2,743	3,333

GENERAL NOTES

Data for 1986-IV are revised; data for 1987-I are preliminary. All Constant dollar data have been revised to 1982 dollars.

Amounts shown as "canceled" in Table 1 also include adjustments and corrections to appropriations backlogs, such as cost over- or under-runs.

All estimates are based on a survey and are for the survey population, which is composed of the 1,000 largest manufacturing companies as ranked by total assets. These companies accounted for approximately 75% of all manufacturing corporations' assets in 1979.

Historical data from 1953 available on request for quarterly series seasonally adjusted and quarterly series not seasonally adjusted.

†Other durables includes lumber, furniture and fixtures, and miscellaneous manufactures; other nondurables includes tobacco, apparel, printing and publishing, and leather.

TABLE 4. ADEQUACY OF CAPITAL FACILITIES

Percent Distribution of Responding Companies Weighted by Assets

	Jan. 1985	Apr. 1985	July 1985	Oct. 1985	Jan. 1986	Apr. 1986	July 1986	Oct. 1986	Jan. 1987	Apr. 1987
					Inadequate					
All Manufacturing	11.0	10.9	9.1	9.1	9.4	8.5	7.9	5.1	8.7	6.2
Durable goods	15.7	17.4	17.3	17.5	16.8	14.3	13.4	7.8	16.0	6.1
Nondurable goods	6.4	5.3	2.4	2.7	2.7	2.7	2.9	2.8	3.1	6.5
					Sufficient					
All Manufacturing	52.9	50.2	52.7	52.0	52.9	51.1	58.5	57.5	62.6	71.8
Durable goods	53.1	54.4	53.5	48.2	47.5	52.7	54.7	60.4	51.8	66.7
Nondurable goods	52.7	46.5	52.1	54.9	57.8	49.5	61.9	55.2	70.9	77.8
					More Than Adequate					
All Manufacturing	36.1	38.9	38.2	38.9	37.7	40.4	33.6	37.4	28.7	22.0
Durable goods	31.2	28.2	29.2	34.3	35.7	33.0	31.9	31.8	32.2	27.3
Nondurable goods	40.9	48.2	45.5	42.4	39.5	47.8	35.2	42.0	26.0	15.7

TABLE 5. CHANGE IN CAPITAL FACILITIES EXPECTED FROM CURRENT SPENDING PROGRAMS

Percent Distribution of Responding Companies Weighted by Assets

	Jan. 1985	Apr. 1985	July 1985	Oct. 1985	Jan. 1986	Apr. 1986	July 1986	Oct. 1986	Jan. 1987	Apr. 1987
					Expansion					
All Manufacturing	51.4	50.9	49.5	45.6	39.4	42.9	42.7	42.6	43.1	42.6
Durable goods	58.9	60.2	52.4	50.3	45.9	41.8	40.5	48.9	44.1	38.5
Nondurable goods	43.9	42.6	47.1	42.0	33.6	43.9	44.6	37.8	42.3	46.7
					No Change					
All Manufacturing	46.9	42.3	47.3	49.1	55.4	51.0	51.8	49.4	46.4	47.8
Durable goods	37.8	32.9	41.5	40.8	45.7	47.7	50.8	34.8	34.3	42.6
Nondurable goods	56.0	50.7	52.1	55.5	64.2	54.2	52.8	60.7	55.6	53.3
					Reduction					
All Manufacturing	1.7	6.8	3.2	5.3	5.2	6.1	5.5	8.0	10.6	9.7
Durable goods	3.3	6.9	6.1	8.9	8.4	10.5	8.7	16.3	21.7	18.9
Nondurable goods	0.1	6.7	0.8	2.5	2.2	1.9	2.6	1.5	2.1	0.0

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Reproduction permissible with full citation to The Conference Board as source.
Published quarterly at 845 Third Avenue, New York, New York 10022.